

**B.Com. (Hons.): Semester-II Paper BCH 2.4(a): ENTREPRENEURSHIP**  
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Topic: What are Micro, Small & Medium Enterprises?

**Definitions of Micro, Small & Medium Enterprises** In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

- i. Manufacturing enterprise; and
- ii. Service enterprise.

**1. Manufacturing Enterprises**-he enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are **defined in terms of investment in Plant & Machinery.**

**2. Service Enterprises**:-The enterprises engaged in providing or rendering of services and are **defined in terms of investment in equipment..**

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified, are as under

Manufacturing Sector		
Enterprises	Investment in plant & machinery	
Micro Enterprises	Does not exceed twenty five lakh rupees	
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees	
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees	
Service Sector		
Enterprises	Investment in equipment	
Micro Enterprises	Does not exceed ten lakh rupees:	
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees	
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees	

- MSME stands for **Micro, Small and Medium Enterprises**. In a developing country like India, MSME industries are the backbone of the economy.
  - The MSME sector contributes to 45% of India's Total Industrial Employment, 50% of India's Total Exports and 95% of all industrial units of the country and more than 6000 types of products are manufactured in these industries (As per msme.gov.in). When these industries grow, the economy of the country grows as a whole and flourishes. These industries are also known as small-scale industries or SSI's.
  - Even if the Company is in the manufacturing line or the service line, registrations for both these areas can be obtained through the MSME act. This registration is not yet made mandatory by the Government but it is beneficial to get one's business registered under this because it provides a lot of benefits in terms of taxation, setting up the business, credit facilities, loans etc.
  - The MSME became operational on October 02, 2006. It was established to promote, facilitate and develop the competitiveness of the micro, small and medium enterprises.
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- The Micro, Small and Medium Enterprises (MSMEs) play a pivotal role in the economic and social development of the country, often acting as a nursery of entrepreneurship.
  - They also play a key role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. The MSME sector contributes significantly to the country's manufacturing output, employment and exports and is credited with generating the

highest employment growth as well as accounting for a major share of industrial production and exports.

- MSMEs have been globally considered as an engine of economic growth and as key instruments for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of large enterprises. MSMEs constitute more than 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports.
- In India too, MSMEs play an essential role in the overall industrial economy of the country. In recent years, the MSME sector has consistently registered higher growth rate compared with the overall industrial sector. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession.
- The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services, and levels of technology. The sector not only plays a critical role in providing employment opportunities at comparatively lower capital cost than large industries but also helps in industrialisation of rural and backward areas, reducing regional imbalances and assuring more equitable distribution of national income and wealth. MSMEs complement large industries as ancillary units and contribute enormously to the socioeconomic development of the country.

- Key Challenges faced by the MSME Sector:
  - Lack of availability of adequate and timely credit
  - High cost of credit
  - Collateral requirements
  - Limited access to equity capital
  - Procurement of raw material at a competitive cost •
  - Problems of storage, designing, packaging and product display
  - Lack of access to global markets
  - Inadequate infrastructure facilities, including power, water, roads
  - Low technology levels and lack of access to modern technology
  - Lack of skilled manpower for manufacturing, services, marketing, etc
  - Multiplicity of labour laws and complicated procedures associated with compliance of such laws.

Despite the various challenges it has been facing, the MSME sector has shown admirable innovativeness, adaptability and resilience to survive the recent economic downturn and contribute significantly to India's industrial growth. Considering the importance of the MSMEs in supporting the Indian economy's growth, the MSME sector needs to have timely, adequate and affordable funds to upgrade its technological competencies and plug financial gaps, so as to move up the value chain.

### **What is the Importance and role of MSMEs in Indian Economy?**

1. **To generate large scale employment In India**, capital is scarce and labour abundant. MSMEs are thought to have lower capital-output and capital-labour ratios than large-scale industries, and therefore, better serve growth and employment

objectives. The MSME sector in India has grown significantly since 1960 – with an average annual growth rate of 4.4% in the number of units and 4.62% in employment (currently employing 30 million). Not only do MSMEs generate the highest employment per capita investment, they also go a long way in checking rural-urban migration by providing people living in isolated areas with a sustainable source of employment.

2. **To sustain economic growth and increase exports** Non-traditional products account for more than 95% of the MSME exports (dominating in the export of sports goods, readymade garments, plastic products etc.). Since these products are mostly handcrafted and hence eco-friendly, there exists a tremendous potential to expand the quantum of MSME led exports. Also, MSMEs act as ancillary industries for Large Scale Industries providing them with raw materials, vital components and backward linkages e.g. large scale cycle manufacturers of Ludhiana rely heavily on the MSMEs of Malerkotla which produce cycle parts.
3. **Making Growth Inclusive** The inclusive growth is at the top of the agenda of Ministry for Medium, and small and Medium-sized enterprises for several years. On the other hand, poverty and deprivation are a deterrent to the development of India. Besides, it includes marginalized sections of a society which is a key challenge lying before the Ministry of MSME. MSMEs are instruments of inclusive growth which touch upon the lives of the most vulnerable and marginalized. For many families, it is the only source of livelihood. Thus, instead of taking a welfare approach, this sector seeks to empower people to break the cycle of poverty and deprivation. It focuses on people's skills

and agency. However, different segments of the MSME sector are dominated by different social groups. The Twelfth Plan has listed the following as the objectives for the MSME sector • Promoting competitiveness and productivity in the MSME space. • Making the MSME sector innovative, improving technology and depth. • Enabling environment for promotion and development of MSMEs. • Strong presence in exports. • Improved managerial processes in MSMEs.

4. **Economic stability in terms of Growth and leverage Exports:** It is the most significant driver in India contributing to the tune of 8% to GDP. Considering the contribution of MSME to manufacturing, exports, and employment, other sectors are also benefitting from it. Nowadays, MNCs are buying semi-finished, and auxiliary products from small enterprises, for example, buying of clutches and brakes by automobile companies. It is helpful in creating a linkage between MSME and big companies even after the implementation of the GST 40% MSME sector also applied GST Registration that plays an important role to increase the government revenue by 11%.
5. **Cheap Labour and minimum overhead:** While in the large-scale organizations, one of the main challenge is to retain the human resource through an effective human resource management professional manager. But, when it comes to MSME, the requirement of labour is less and it does not need a highly skilled labourer. Therefore, the indirect expenses incurred by the owner is also low  
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6. **Simple Management Structure for Enterprises:** MSME can start with limited resources within the control of the owner. From this decision making gets easy and efficient. On the

contrary, a large corporation requires a specialist for every departmental functioning as it has a complex organizational structure. Whereas a small enterprise does not need to hire an external specialist for its management. The owner can manage himself. Hence, it could run single-handedly.

7. **The main role in the mission of “Make in India”:** The signature initiative by the Prime Minister of India “Make in India” has been made easy with MSME. It is taken as a backbone in making this dream a possibility. In addition, the government has directed the financial institution to lend more credit to enterprises in the MSME sector.